Le mouvement coopératif au coeur du XXIe siècle

Gagnon, Alain-G., Girard, Jean-Pierre

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COOPERATIVES AT THE START OF THE 21st CENTURY
AN OVERVIEW OF THE COOPERATIVE MOVEMENT IN THE USA

Christina A. Clamp
Southern New Hampshire University
SUMMARY

Cooperatives are well established in the United States economy. This chapter examines the current status of cooperatives in the United States by sector. In the review of each sector, the chapter focuses on three key themes: pressure to achieve economies of scale; greater professionalization of co-op management; and the impact of technology. The success of cooperatives has depended so far on the quality and trustworthiness of service to members. Cooperatives need to remain accountable and accessible to the needs and priorities of their members while preserving enough flexibility to meet the challenges of internationalization and e-commerce. Ultimately, the challenge to the future of the cooperative movement will be to ensure that members continue to have opportunities for meaningful participation in their cooperatives.
Cooperatives are well established as an integral part of the American landscape. As we enter the 21st century, we can find cooperatives in both rural and urban areas and in all regions of the United States. They serve the needs of well established farming communities for marketing, purchasing and credit. Native Americans living on some reservations are able to utilize cooperatives to generate their electric power and to market their handicrafts. There are urban communities where residents can enjoy the benefits of cooperative ownership of housing and the financial services of credit unions and employment through worker cooperatives. The cooperative movement in the United States is characterized by a rich diversity of firms, both large and small, in a variety of sectors. All cooperatives seek to address the needs of their members and to operate in ways consistent with the cooperative principles.

It is important to note that the cooperative movement in the United States has adopted a more liberal definition of cooperative than that used in other countries. Cooperative statutes in many states were designed for agricultural and/or consumer cooperative societies. In practice, the movement has embraced a broad range of democratic and cooperative initiatives including democratic employee stock ownership firms.

There are 47,000 co-ops nationally, with 120 million members, or forty percent of the American population, according to the National Cooperative Business Association (NCBJ web site). Among the top 100 cooperatives in the United States, there are such familiar names as Sunkist Growers, Inc., Welch’s, ACE Hardware Corp., Ocean Spray, Land O’ Lakes Inc., Agway, Inc. and Recreational Equipment, Inc. Cooperatives are well established in the United States economy. Over 50 million Americans are served by insurance companies owned by or closely affiliated with cooperatives. The top 100 cooperatives had annual sales in excess of $1 billion in the year 2000 (NCBJ, 2000b).

This is an exciting time for new economic activity and there are areas for potential new cooperation. While there is much to applaud in this new business environment, there are also challenges to the core elements of working cooperatively in the form of globalization and e-commerce. This chapter will examine the current status of cooperatives by sector, as well as the current challenges and opportunities in each sector. In particular, trends in professionalization of staff and the impact of new technologies are considered.
THE FINANCIAL FOUNDATION OF THE AMERICAN COOPERATIVE MOVEMENT: THE NATIONAL COOPERATIVE BANK AND THE CREDIT UNION MOVEMENT

Banks have historically neglected low-income communities. Credit unions fill an important need in the provision of banking services to working people and to the poor. Through building personal relationships, credit unions have been able to successfully serve people that would have been denied credit at conventional banks. The credit union motto is: “Not for profit, not for charity – but for service.” No other form of cooperative is as widespread and well known to Americans as credit unions.

In the United States, credit unions may be state or federally chartered. They are federated in state credit union leagues. The leagues in turn belong to a confederation called the Credit Union National Association (CUNA). CUNA has an affiliated organization, CUNA Mutual Insurance Society, which provides insurance and other support services such as office supplies to its members. It also helps credit unions to stay competitive in the rapidly changing environment of financial services (NCBJ, 1999a).

Credit unions can be found in communities both large and small. Some are organized in the workplace with an occupational field of membership, while others in churches or based in a community have a geographic field of membership. There are over 72 million members in 11,500 credit unions. Credit unions are the second largest lender of auto loans, behind banks and ahead of manufacturer finance organizations. They offer credit cards, automatic teller machine networks, savings products and financial services, and are a popular choice for home mortgages (National Cooperative Bank, 2000a).

Credit unions hold a very small share of U.S. banking services. Banks’ market share was 78.5% in 1999, compared to 5.8% for credit unions, which represent one dollar out of every eighteen asset dollars in the United States. The loan delinquency rate for credit unions is .75% while in banks, the rate is .95%. This rate has been consistently lower in credit unions than in banks from 1984 to the present (CUNA, Web site).

There is a special class of credit unions that are chartered by the National Credit Union Administration. These are the community development credit unions (CDCUs). There are about 1,000 credit unions that are designated as community development credit unions. Located in underserved communities, these credit unions are able to accept non-
member deposits, which is what distinguishes them from other credit unions. The National Federation of Community Development Credit Unions (NFCDCU) is a member organization with the mission of advocating and providing resources for CDCUs. It has about 200 member credit unions (NFCDCU, Web site).

Under the Clinton administration, the credit unions found the chartering process to be more open than it was under the previous two Republican administrations. At the same time, credit unions unable to address stricter regulatory requirements of the National Credit Union Administration (NCUA) for “prompt corrective action” will face increasingly harsh sanctions which could result in liquidation or merger. “Prompt corrective action” means that all credit unions are required to maintain a capital-to-assets ratio of less than 6%. NFCDCU has softened the impact with secondary capital investments in their member credit unions. Ultimately this regulatory pressure is expected to result in fewer large credit unions. There has also been a move by some larger mainstream credit unions to seek CDCU designation, so that they are eligible to receive non-member deposits.

The passage of the Community Development Finance legislation created a new source of capital for CDCUs. The National Federation of Community Development Credit Unions is federally designated as a community development finance institution. It is able to use these federal monies for non-member investment in its member institutions. This funding is important since it enables credit unions to expand their services to members more rapidly and therefore to become more competitive in the delivery of banking services.

Credit unions will continue to be a very important source of community banking services for consumers. Small community banks outside of credit unions are few and far between. The large interstate banks are an expensive alternative for the average working person. Many working poor have come to rely on check cashing stores for short-term credit and check cashing, but these operations charge exorbitant rates for their services. The CDCU movement has been aggressively advocating against the predatory lending practices of check cashing operations in low-income communities.

The challenge for credit unions will be to look for ways to continue to provide a human face and a cooperative approach to banking services. Consumers want electronic banking and automatic teller machines. There will also be a need to look for ways to gain economies of scale. The credit unions will need to invest in new technologies to remain financially viable and develop ways to gain advantages of scale through their national
organizations. The challenge will be to maintain accountability and the personal relationships upon which the movement built its success, while giving members the benefits of remote access.

These technological changes will also pressure credit unions to develop more professional staffing. As they move out of church basements and into storefront operations, they will need staff with bank experience and a commitment to continue to make service to members a priority. Given the regulatory pressures from the National Credit Union Administration as well as the market forces for economies of scale, we will probably see fewer and larger credit unions with a significant investment in automatic teller machines and e-banking technologies.

Two other important banking institutions in the cooperative movement are the National Cooperative Bank and CoBank. The National Cooperative Bank (NCB) was chartered in 1978, for the exclusive purpose of serving cooperatives. Its board of directors is elected by its customer-owners. The bank’s primary areas of business include: real estate, commercial and small-business lending, as well as community development and retail banking. NCB manages more than $3 billion in assets and has originated $6 billion in transactions (NCB, 2000b). Since NCB does not have offices throughout the United States, the Internet is providing an important means of reaching more cooperatives nationally with Web-based products (NCBJ, 1999a).

CoBank was chartered in 1916. It specializes in agribusiness, communications, energy and water systems, and agricultural export financing. CoBank offers short, intermediate and long term financing, specialized financial services and leasing services, Web-based products and other financial services through their private strategic alliances. The bank is owned by 2,600 stockholders, of which 2,000 are current customers of the bank. The customer-owners elect the board of directors (CoBank, Web site).

Venture capital remains a significant challenge for the development of new cooperatives. Rural cooperative development has been supported through the U.S. Department of Agriculture’s Rural Cooperative Development Grants. These provided $4 million for training and technical assistance in 2000. More funds are needed to adequately address the demand for this assistance. There is also nothing similar available in urban areas. Cooperative development in underserved communities currently must depend on private philanthropy and local community loan funds to finance its development. There is a new initiative sponsored by the National Cooperative Business Association, which hopes to develop
additional resources to foster urban cooperative development. This initiative is modeled on a similar effort that was launched in rural areas in 1988 (NCBJ, 2000b).

**WORKER COOPERATIVES: THE KEY TO BUILDING BETTER JOBS**

Studies of asset concentration support the need to develop worker cooperatives as an asset-building strategy for local ownership and control of businesses (Kardas, Scharf and Keogh, 1998; Gates, 1998; Oliver and Shapiro, 1997). While we cannot turn back the clock on globalization, there are niches where worker cooperatives are able to successfully offer people jobs that are committed to serving their local community, while providing better jobs for them. One such niche is in the service sector with entry-level workers. The experiences of The ICA Group, ChildSpace Development Training Institute and The Paraprofessional Healthcare Institute illustrate this point. Job creation with worker cooperatives is still a relatively small part of the cooperative movement. In the United States, there are 500 worker cooperatives, in contrast to 10,000 Employee Stock Ownership Programs (ESOPs) that employ 10% of the American workforce. Employees own a majority of the shares in only 1,500 of the ESOPs (ICA Group, Web site). American workers and the banking system are more receptive to stock-ownership models.

The main national promoter of democratic worker ownership and worker cooperatives in the United States has been The ICA Group, which operates nationally as a provider of technical assistance to worker cooperatives and also as a developer of new firms. It has developed a successful model for democratic stock ownership. This type of innovation on the cooperative model promises to insure steady growth in democratic worker ownership. Worker ownership is developed in three ways: conversion of existing firms, plant closings, and start-ups of new firms.

The ICA Group has played a leadership role in sectorial interventions and typically works with a local project partner such as a community development corporation, a labour union or a church. Their sectorial strategy has been to improve the quality of employment and the compensation of workers in low-wage, entry-level occupations. These efforts have been targeted to three service sectors: health care, staffing companies, and child care. Strategically, it also seeks to put pressure on other firms in the sector to offer better benefits and wages to their workers.
The staffing services sector is an example of a sectorial intervention through The ICA Group’s community jobs initiative. Intervention in this sector has sought to develop worker-owned and community-based companies that will provide pathways to full employment for welfare recipients and others in need. The ICA Group has sought to demonstrate a model for socially responsible firms to operate in this sector. In the three firms created, the plan has been to establish a supportive environment where those employees who do not transition to full employment can increase their skills and share in ownership and control of the company. Given the current job market, the firms have served more as a contracted provider of workforce development and a placement agency. The three companies that were created are: Worksource Staffing Partnerships, in Boston; FirstSource, Brooklyn, NY; Enterprise Staffing, in Washington, DC.

Two other important American promoters of worker ownership through sectorial interventions in the development of cooperatives are: ChildSpace Development Training Institute, in the child care field; The Paraprofessional Healthcare Institute, in the health care field.\(^1\) The ICA Group partners with these two groups on projects.

The Paraprofessional Training Institute is the development arm of a successful worker cooperative, Cooperative Health Care Associates, in the Bronx borough of New York City. The cooperative health care companies have sought to provide entry-level workers and skilled nurses better paid and better-quality jobs. Worker-owned health care firms have sought to provide above-average pay and benefits; opportunities for a career ladder; and better-quality nursing care. Changes in the federal reimbursement rates have forced closure of some of these firms. The remaining firms have focused on skilled nursing and private pay clients. Two such successful ventures are: I Am Unique, in Raleigh, NC, and Quality Care Partners, in Manchester, NH.

Child care in the United States is one of the worst compensated fields. Turnover in employment is very high, which affects the quality of care provided to children. Wealthier communities fare better because people have the means to pay more for child care services than the state will pay for subsidized daycare slots. ChildSpace Development Training Institute, located in Philadelphia, was created to replicate a successful worker cooperative in the daycare field.

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\(^{1}\) The Ohio Employee Ownership Center and ACENet in Athens, Ohio are examples of local and regional organizations that promote worker ownership and cooperatives in the United States.
ChildSpace Development Training Institute has a national replication initiative to create new firms modeled on the one in Philadelphia. They have developed other daycare centers in Richmond, California and Denver, Colorado, and a second center in Philadelphia. Two other centers, one in Chicago and the other in Santa Rosa, California, are in the development stage in partnership with The ICA Group.

ChildSpace has used a multi-pronged strategy for addressing the problems of the child care sector: enterprise development, job redesign, advocacy, and asset building (ChildSpace Development Training Institute, 2000).

In the ChildSpace model, worker cooperative companies employing low-income women partner with a local nonprofit or governmental agency. The cooperative serves as a management company and is contracted by a local partner to provide high-quality, developmental learning programs. The centers are demonstration sites and learning labs for further replication in a region and for creating a broader base of leaders in the field, as well as a hub for collaborative relationships with unions, advocates and others in the child-care field.

The job transformation strategy seeks to redesign the jobs, provide above-average wages and benefits, and create a career ladder for workers. It also seeks to create a work culture that promotes empowerment through training and participation in work groups and corporate decision-making. ChildSpace’s advocacy activities are targeted at efforts to maintain and/or improve standards of care, levels of funding, and regulations impacting disbursal of funds and the quality of life for child care workers.

The final element of their strategy is asset building for daycare workers. They have developed an individual development account program for all child-care workers in Philadelphia whose incomes are 200% of federal poverty levels or less. Successful participants will receive financial management training and, through a 3:1 match (the program contributing $3 for every dollar contributed by a participant), leverage their savings to build towards a goal of home ownership, or funds for schooling or to improve their business.

A key component to the development of new cooperatives by these three groups has been the creation of worker cooperatives targeted to entry-level workers. They seek to create better-quality and better paid jobs in responsible firms that give workers stable employment and an equal share in their enterprises. Profitable firms in turn create an asset...
for workers. They seek to build in workforce training to strengthen job readiness skills of entry-level workers and help them to transition to full-time permanent employment.

Financing is a serious challenge in the development of worker co-ops. Sources of funding for equity financing are limited. Money needs to be raised without compromising the ability of the co-op to grow the business. Start-up finance for these firms depends on a combination of grant, debt and equity financing from social investors. The more a business relies on debt, the more likely it will fail. Equity can come in the form of preferred stock or royalties, but it can be difficult to define an exit strategy for the outside investor. Preferred stock usually pays social investors a dividend at a low rate of return, and it may do so in a cumulative or noncumulative way. It is difficult to resell unless it is a convertible security. Cooperatives have no incentive to convert preferred stock or to repurchase it. Preferred stock can be structured to convert to a loan when the firm reaches a certain level of profitability.

Equal Exchange, a fair-trade coffee company, is a worker cooperative based in Canton, MA, which uses preferred stock to raise outside capital. It makes it clear to its investors that there is no easy exit strategy for them. The Local Enterprise Assistance Fund (LEAF), an affiliated loan fund of The ICA Group, has had successful experiences as a lender and equity investor in ICA projects. They structure the financing to convert to a loan when the firm reaches a certain level of profitability. It also gives The ICA Group a seat on the board during the period when LEAF has equity in the firm.

A second strategic challenge is to recruit qualified professional management to run the firms. The ICA Group has seen projects stalled due to a lack of qualified management available who would be willing to work for a worker cooperative. This points to the need to foster cooperative professional education in higher education in the United States similar to the programs that have been developed at the University of Leicester, England, and St. Francis Xavier University, in Canada.

The National Cooperative Business Association identified worker cooperatives as a focus for a new initiative in 1998. They see worker cooperatives as an important area for new cooperative development. Given the success with sectorial development of worker co-ops, it is likely to continue to be a useful strategy for other sectors. It is also likely that some urban geographically focused efforts with an increased involvement of local community development corporations will be attempted.
CONSUMER COOPERATIVES: STILL PUTTING PEOPLE FIRST

Consumer cooperatives come in all shapes and sizes, but all are committed to putting the consumer first. Consumers have developed a wide variety of cooperative societies to provide needed products and services. Among the largest are the consumer-owned, consumer-controlled cooperatives that pioneered pre-paid, group practice health care. Today, cooperative health care maintenance organizations (HMOs) provide health care services to nearly 1.4 million American families. The largest cooperative retailer is not a food cooperative. Recreational Equipment Inc. (REI), an outdoors recreational equipment firm based in Seattle, WA, has over 40 stores nationally, a catalog, a Web site, and more than 1.4 million members (NCBJ, 2000).

In housing, there are approximately 1 million cooperative housing units serving households with a range of income levels and housing needs. Housing cooperatives can be found in both urban and rural settings. Eighty-five percent of all housing cooperatives in the United States are located in New York City. Three million people live in housing cooperatives in the United States (NCBJ, 2000a). Over the past decade, the federal government has promoted the conversion of public housing into resident-managed cooperatives. Another area for housing cooperative development has been in senior housing, and assisted living for elderly and special needs populations. Wherever housing costs continue to increase, cooperatives will continue to be an important option for affordable housing.

The picture is not so favorable for food cooperatives. Gaining prominence during the 1960s and 1970s in the United States, food cooperatives have been innovators in the areas of unit pricing, consumer protection and nutritional labeling. Many serve the organic and whole foods niche market. According to the directory of cooperatives of the Associated Cooperative Grocers, there are 284 food cooperatives with retail stores (Food Co-op Directory, Web site). There are more than 4,000 cooperative buying clubs operating across the country out of church basements and community centers, according to the National Cooperative Bank (NCBJ, 2000a). Food cooperatives have been very good at meeting social goals of member education about food, nutrition, community building and the environment.

Food cooperatives have experienced serious challenges to their traditional market base, as large supermarket chains have diversified into organic and natural foods. They have also experienced problems of low member participation. There is pressure for food cooperatives to grow
and merge in order to gain better economies of scale. According to Gutknecht and Swanson (2000), the financial health of food co-ops is strong but the future, troubling.

Natural food cooperatives, as a group have strong, high capacity balance sheets. With average debt:equity of .65, and a current ratio (assets to liabilities) of more than 1.8, they are significantly less leveraged and more liquid compared to most major competitors. Average same store sales growth of more than 10 percent for natural food co-ops last year was among the best in the industry. Net earnings were their highest in six years.

And the bad news: Food co-ops are losing overall market share, paying more for products than competitors, and improving more slowly than the best run natural food chains.

In response to the external market challenges, The National Cooperative Grocer Association (NCGA) was formed in 1999. NCGA’s mission is to identify, develop and implement effective strategies for coordination and collaboration between regional cooperative grocer associations. NCGA is working to identify areas where the food co-ops can improve operational efficiency, build a stronger co-op identity and harness their market advantage by working together with other cooperative businesses. The cooperative food wholesalers are also facing these same market forces. Their situation is described in the next section.

As in Canada, the environment for food cooperatives in the United States is increasingly competitive for independent stores. The American food co-ops believe that they may have to follow the Maritime Canadians’ example and consolidate in order to reverse their declining fortunes. The food co-op movement has historically struggled with internal weaknesses in some food co-ops. Gutknecht and Swanson (2000) note that the national collaboration has improved store performance. As in the credit unions, the challenge will be to insure accountability to members as they pursue national collaboration for their long run survival.

Rural electric cooperatives operate more than half of the electric distribution lines in the United States and provide electricity for 25 million people in 11 million homes, nationally. There are 1,000 co-ops in this sector, which generally serve about 8,000 members. Originally, they provided electric power at the lowest possible price. Now they assist with business retention, growth, promoting job creation and developing community and economic power. In addition to the electric cooperatives, there are also 1.2 million people in 31 states who belong to a telephone cooperative (NCBJ, 2000a).
Utility deregulation is a trend in most states in the U.S. This deregulation and restructuring has created new opportunities for cooperative development in energy and utility service. Full-service energy providers structured as consumer co-ops are being established to insure that consumers will have access to power at competitive prices. These are new ventures which, if successful, hope to provide consumers the option of purchasing power from renewable energy sources. In New England, there is the Connecticut Energy Cooperative and New Hampshire Consumers Utility Co-op. First Rochdale is a full-service energy cooperative in New York City that was created by co-op housing leaders. It has a subsidiary, Twin Pines Fuels, which provides utility services to consumers in fourteen states, from Maine to Virginia. The viability of these new ventures will depend on their ability to successfully offer members lower energy costs and attractive bundles of comprehensive energy services.

The campus cooperative movement has been an important part of the consumer cooperative sector. The North American Students of Cooperation (NASCO) is a federation of campus and community cooperatives dedicated to serving and expanding the cooperative movement across the United States and Canada. NASCO's membership is primarily university student cooperatives. Community cooperatives represent between 5 and 10% of NASCO's membership (Dubb, 2001).

NASCO's primary focus is member education and movement building, utilizing popular education methods. It provides cooperative education to its members and affiliates through an annual institute, a managers' conference and training for individual member cooperatives. In 2000, NASCO's annual institute had 400 participants, of whom about 10% were Canadian. The institute provides training in the areas of cooperative movement education, cooperative finance, governance and operations, and the development of new cooperatives. The managers' conference annually enrolls about 20 to 30 participants and focuses on professional development of the managers in areas defined by their needs. Recent sessions have included the use of the Web, accounting, and publication and liability issues. NASCO visits each member cooperative annually, where it conducts a workshop. Recent workshops have addressed topics such as effective meeting management, nonprofit incorporation and the start-up of new cooperatives. According to Steve Dubb, the Executive Director of NASCO, professional development of the managers of NASCO member cooperatives has been an important focus of their management training (Dubb, 2001).

NASCO has positioned itself well to foster new cooperative development and member cooperative expansion through two affiliated organizations, Campus Cooperative Development Corporation (CCDC) and
NASDAQ Properties. CCDC was founded in 1987 and NASCO Properties was chartered in 1988 (NASCO, 2000). CCDC’s mission is to build the movement’s capacity to develop new cooperatives and expand existing cooperatives. A technical assistance provider to NASCO members who are expanding their cooperatives and acquiring new properties, it also works with organizing groups in the development of new cooperatives. NASCO Properties is a mutual housing association, which can be joined by organizing groups that are unable to secure traditional financing. NASCO Properties will purchase the properties. The organizing group becomes a lease cooperative and, as a member of NASCO Properties, is represented on the NASCO Properties board (Dubb, 2001).

NASCO is an important resource in the cooperative movement. Through the university cooperatives, young people are introduced to the cooperative movement. NASCO’s inclusion of community cooperatives provides a valuable training and development resource for other organizing groups interested in community and housing cooperatives in the United States and Canada.

MARKETING AND PURCHASING CO-OPS: THE KEY TO SUCCESSFUL INDEPENDENT BUSINESSES

To many independent retail stores, cooperatives have been the key to staying competitive. Retail-owned food and hardware cooperatives make it possible for hundreds of independent store owners to successfully compete with large chains. More than 22,000 grocery and hardware stores buy their inventory and save through cooperative wholesalers. Independent retailers have found that they can compete through their combined purchasing, identity programs, and brand names. Greater integration of small business owners into the cooperative movement is expected to make purchasing cooperatives the fastest growing segment of the cooperative sector.

This has created opportunities for new co-op formation with small-business owners. AMAROK is a purchasing cooperative formed by building-supply retailers with 74 small-business members in 35 states and $500 million in sales. Carpet One, a purchasing co-op with 800 small-business members, is now the largest retailer of carpeting with sales of over $2 billion.

The crisis in the affordable delivery of health care has also led to new co-op development in rural hospitals. Starting with a network of hospitals in southern Maine, other groups of rural hospitals are similarly organizing to contain costs. According to Paul Davis, a consultant who
organized many of these cooperatives, hospitals are able to cooperate on purchases and also to make decisions around the sharing of equipment (Davis, 2000). This has been an important strategy for retaining local access in rural areas to affordable medical facilities.

Cooperative natural-food wholesalers have declined in numbers from 60 to 10 in the past 20 years. This decline is largely due to competition from noncooperative natural-food wholesalers and the entrance of mainstream supermarkets into the natural-food and organic-produce markets. The remaining cooperative natural food wholesalers are looking to e-commerce and strategic alliances as the means to remaining competitive. Northeast Cooperatives has entered into a strategic alliance with another cooperative, Blooming Prairie, and a family-owned distributor, Nature’s Best. This joint venture has created a 46-state distribution system. This allows the three firms to share a common promotional program, pool costs of technology, and offer seamless service as national players. Joint ventures are seen as essential to the cooperative natural-food wholesalers’ ability to compete with non-cooperative natural-food wholesalers.

Another important alliance is with their member retail food cooperatives, which are members of the wholesale cooperatives. This has insured a close and collaborative relationship for the food wholesale and retail cooperatives. Northeast Cooperatives has had an electronic ordering system for preorder cooperatives. Next year, they will launch a B2C (business-to-consumer) service for its retailers.

Wal-Mart, Krogers and Whole Foods dominate the retail food industry. This competitive environment troubles cooperators in the wholesale and retail grocery business, who recognize that their sector may require international cooperation to remain competitive.

Globalization has had its greatest impact on the cooperative movement in agriculture. There are 4,100 agricultural cooperatives with 3.9 million members. About 30% of farmers’ products are marketed through cooperatives. Farm economies have had to cope with rock-bottom prices for commodities and unfair trade practices. The response of agricultural cooperatives has been to restructure through value-added production, consolidations acquisitions, joint ventures, mergers and alliances. Unification is viewed as an important strategy for vertical or horizontal integration. As with other businesses in global markets, the key to success is to be bigger and able to position the cooperative competitively, or else be picked apart.

Value-added production attempts to capture the added value that comes in the processing and packaging of commodities. Farmers have seen the production costs rise steadily since 1950 to over 85% of gross
cash receipts. Advances in production have resulted in higher yields, but the farmer now receives only 23% of the total food expenditures, down from 40.9% of the total food expenditure. Value-added production has increased 70% in the past two decades in agriculture (NCBJ, 1999b).

Developing value-added activities requires capital investment to develop the value-added processing facilities. There are now 250 "new generation" cooperatives that require a 40% capital investment from members and member participation. They provide value-added production and member services. Kraenzle and Cummins (1999) observe that joint ventures are a popular vehicle for advancing value-added strategies.

The downside of this restructuring is that not all mergers have been with other cooperatives. According to Heffernan (Merlo, 1998a, p. 6), where mergers occur with investor-owned firms (IOFs), the cooperatives are eliminated. He sees the mergers with IOFs as an indication that family farms are disappearing, as co-ops were essential infrastructures for family farms. "As the family farm system is replaced by industrialized agriculture, we will no longer need the infrastructure that supported the family farm" (Merlo, 1998a, p. 6).

Mergers with other cooperatives also have their challenges. Restructuring into mega-cooperatives results in administrative hierarchies that are removed from the membership and may be physically removed as well. Torgerson (Merlo, 1998a, p. 8) of the (United States Department of Agriculture (USDA)), Rural Business Cooperative Service, believes that these mega-cooperatives may become more corporate than cooperative. There is a risk that they will lose their member-user orientation. They may also focus on the larger producers at the expense of the smaller ones. In spite of the challenges, cooperatives need to have a direct presence in global markets to protect their domestic markets. Seipel and Heffernan argue that cooperatives should play a role in reestablishing links between food producers and consumers. Globalization has exacerbated consumer concerns about food quality and safety. The agricultural cooperatives can play an important role in alternative food distribution and the move beyond traditional commodity channels.

**TRENDS IN THE US CO-OP MOVEMENT**

Globalization, e-commerce, and the related challenges of this new economic environment create pressures for change from the smaller cooperative societies that characterized the cooperative, movement at the start of the last century. In agriculture, retail consumer cooperatives, and credit unions, we are seeing pressures that will result in restructuring in order
to be sustainable. In this final section, some concluding observations are offered on the current trends in the cooperative movement in the United States.

**Pressure to Achieve Greater Economies of Scale**

The 21st century is likely to see an era of mega-cooperatives and joint ventures, mergers and acquisitions especially in a number of cooperative sectors. Credit unions, agriculture and food cooperatives, and their cooperative wholesalers must reorganize and restructure to remain sustainable. In all cooperative sectors, there is a need to reduce duplications of services and functions. The challenge is for the primary societies to ensure that they remain accountable and able to respond flexibly to the needs of members. The strategic use of mergers to stabilize troubled primary and secondary societies is a logical response to protect the interests of members. It is also a chance to reorganize and restructure troubled firms into stronger co-ops. In some cases, the solution will be to utilize joint ventures. In others instances, mergers may be the only way to ensure sustainability for the members.

There will also be a greater emphasis on building co-op identities by sector and also nationally, such as Touchstone Energy, a national electric co-op branding initiative. The credit unions are also developing a branding initiative. Collaboration and joint ventures will also be essential tools for ensuring sustainability.

The cooperative difference is essential to the success of cooperatives. Members have trusted their cooperatives to provide the best service and value in their products. It is essential that the cooperative movement continue to provide services that are tailored to the needs of their members. Equally important will be the challenge of how to keep members involved in the governance of their firms. This will require experimentation with new ways of involving members such as online discussions and membership information.

**Greater Professionalization of Co-op Management**

Historically managers were often hired more for their co-op philosophy than their business acumen outside of the credit unions and agriculture. The trend is to recruit more professionally trained managers in all sectors. The Co-op Movement has focused on executive management development in short course formats. There is a need to develop training and educational opportunities on cooperative solutions and democratic and participatory managerial skills for cooperative leaders. It is important
that leaders be able to address the pressures for mergers and greater economies of scale while ensuring that the cooperative remains accountable to members.

NCBA is exploring ways to create more opportunities for short-term training and conferences for members. The US Department of Agriculture has provided $4 million in Rural Cooperative Development Grants to assist cooperative development centers in providing help to groups forming cooperatives in rural America. Since 1999, the National Federation of Community Development Credit Unions has conducted two week-long trainings per year for staff and boards of their member credit unions. CUNA is already heavily involved in training for credit union board members and staff. The next logical step is to encourage universities to offer course work that will serve the needs of cooperative leaders.

**Technology**

The success of cooperatives has depended so far on the quality and trustworthiness of service to members. Ultimately, the challenge to the future of the cooperative movement will be to ensure that members continue to have opportunities for meaningful participation in their cooperatives. Cooperatives need to remain accountable and accessible to the needs and priorities of their members. Cooperative leaders will need new skills to manage this complexity. They will also need to explore new ways of connecting with members utilizing online technologies.

The use of technology in the cooperative movement is quite varied. Some cooperatives are very sophisticated in their use of technology; while others lag behind. In the primary societies, many have been slow to fully exploit online technologies and e-commerce. The cost of development may have discouraged some. Others are apprehensive that virtual communities will replace face-to-face interactions. Many co-ops were quick to create Web pages but not all have kept up with innovations in technology. Many of the Web sites are static and should be redesigned.

Two initiatives are likely to bring new energy and excitement into the area of e-commerce. In October 2000, Internet Corporation for Assigned Names and Numbers (ICANN) approved a “.coop” top-level domain. The new top-level domain will be limited to bona fide cooperative businesses. This will make it easier to foster co-op-to-co-op business activity as well as enable consumers with a preference for shopping co-ops to find them online. The National Cooperative Business Association applied for the “.coop” designation along with Poptel, a worker owned telecommunications cooperative in the U.K., and the International Cooperative Alliance.
The second initiative has been the creation of Co-opBuy.com, an Internet marketplace by NCBA, in October 1999. It operates as a purchasing cooperative for non-core endorsed products such as office supplies, computers, and insurance. The benefits to members include: discounts, patronage refunds, and a user-friendly Internet marketplace for placing free classified ads (NCBJ, 2000c).

NCBA has stressed the importance of e-commerce to the cooperative movement. With the development of CoopBuy.com and the “.coop” top-level domain, they have secured two important resources. These efforts may lead to greater internationalization of cooperatives. They also are an important vehicle for attracting new members into the cooperative movement.

Cooperatives in the 21st century will face a number of challenges as they seek to manage new alliances and larger, more complex organizations. It is an exciting time as well! Cooperatives have demonstrated a commitment to putting members first. They have a track record of working together with other cooperatives in federations and other apex organizations. These skills position the movement well in facing the challenges of this new global economy. The U.S. cooperative movement recognizes both the challenges and opportunities of this “brave new world” and they are positioned well to respond to them.

**BIBLIOGRAPHY**


**Web Sites**


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